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Central Intelligence Agency



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Hanoi Retrenches (U)

The Vietnamese leadership has officially embraced a growing campaign to crack down on the private sector. The campaign is likely to fall far short of its goal, however, because of shortcomings in performance and motivation among the officials who will implement the policy, as well as the danger that the crackdown will harm the fragile Vietnamese economy.

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The Fourth Plenum Communiqué

At the fourth plenum of the Communist Party Central Committee last month, the Vietnamese leadership officially confirmed its intent to tighten control over the nation's burgeoning private sector. The plenums, usually held semi-annually, are the only occasions between the quinquennial national party congresses that permit the Central Committee to meet and act as a body. The announcement of a policy at a plenum, therefore, emphasizes the importance of the program and indicates that it is backed by the entire Central Committee.

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In the June plenum's closing communiqué, the Central Committee declared that the "state must bring into full play the working people's right to collective mastery" in order to "prepare conditions for a vigorous advance in socialist construction." In essence, the plenum appeared to advocate a concerted effort to socialize the economy that would end much of Vietnam's experiment in economic liberalization that began in the summer of 1979. The experiment provided incentives for

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production, removed barriers to trade, and granted permission for the establishment of a wide range of private enterprises.* These reforms, however, led to a massive expansion of the private sector. 25X1

Half the communique dwelt on poor cadre performance at all levels of management, suggesting that the leadership may renew its attempt to purge incompetent or corrupt party cadre judged responsible for the breakdown in economic control. All party organizations were ordered to "observe the principle of democratic centralism"--that is, not to obstruct policy. More political education and serious "criticism and self-criticism" were to be employed to prevent cadre from:

- Not upholding "revolutionary virtues" (engaging in nepotism and corruption).
- Manifesting "rightist leanings" (deep, often illegal involvement of cadre in the private sector).
- Evading responsibility.
- Practicing bureaucratism (obstruction of policy implementation).
- "Loosening organizational and disciplinary sense" (not following orders and acting without authorization).

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The Campaign

The move toward economic retrenchment started unofficially in 1982 and began accelerating after the beginning of this year. Hanoi has closed down firms--51 privately owned restaurants in Ho Chi Minh City were closed in the spring, for example--or severely taxed them. It has also restricted the flow of overseas remittances. On 1 March 1983, the authorities limited the number and amount of money transfers allowable annually and banned many goods as contraband. 25X1

Incentive programs for peasants and state factory workers, however, remain in force suggesting that the campaign is directed primarily at urban distribution and trade. Those in the service, small-scale manufacturing, and retail trade sectors had created private firms to buy the increased amount of agricultural produce available as a result of the 1979 liberalization and to sell



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goods to the peasants. The merchants were involved not only in merchandising, but also in money-lending and -changing, and in handling the increasing inflow of dollars and goods provided by overseas Vietnamese to friends and relatives still in the country. When these goods did not meet consumer demand, the private traders financed the illegal diversion of state-produced goods into the private market. [redacted] 25X1

This activity greatly increased the cost of living, especially hurting state and party officials on fixed incomes. Unable to make ends meet, they often "facilitated" the entry of goods from abroad or from state firms into the free market in return for bribes. As a result, the officials tasked with policing the private sector became deeply involved in its functioning. [redacted] 25X1

Although the campaign is nationwide, Ho Chi Minh City is at the center. In May, a party delegation led by Vice Premier and Politburo member Do Muoi traveled to the city to review its performance. According to Vietnamese media reports, the city leaders were told to expand the state sector's share of the retail market and move to control the sources of commodities. The semiautonomous export-import corporations flourishing in Ho Chi Minh City were to be brought under control. [redacted] 25X1

Campaign Dependent on Production

We doubt that the retrenchment can be fully implemented without hurting Vietnam's economy. Controls on overseas remittances, for example, would reduce a vital source of hard currency. Combined with the crackdown on private traders, this would reduce the amount of goods and money available to the private sector and reduce the incentive for the rural population to maximize crop yields. Because Hanoi has no food reserves, any resulting drop in production would force the leadership to back off its socialization campaign. In addition, we do not believe the leadership can rely on its cadre to carry out the retrenchment effectively. The party has been unable to purge its ranks of corrupt and inefficient cadre despite more than two years of effort. [redacted]

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SUBJECT: Hanoi Retrenches

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